

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE W-1**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone W-1
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone W-1

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone W-1 (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone W-1, as of June 30, 2003, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zone W-1 has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

MEMBERS

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Statement of Net Assets
June 30, 2003

ASSETS

Current Assets:

Cash and cash equivalents	\$ 485,227
Accounts receivable, net	60,828
Interest receivable	2,696
Taxes receivable	6,540
Total Current Assets	<u>555,291</u>

Noncurrent Assets:

Capital Assets:

Land	3,500
Improvements to land	2,627,381
Vehicles	89,920
Construction in progress	109,058
Accumulated depreciation	(1,058,684)
Total Noncurrent Assets	<u>1,771,175</u>

Total Assets	<u>2,326,466</u>
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LIABILITIES

Current Liabilities:

Accrued interest payable	4,187
Due to other governments	335
Bonds payable	40,000
Total Current Liabilities	<u>44,522</u>

Noncurrent Liabilities:

Bonds payable	965,000
Total Noncurrent Liabilities	<u>965,000</u>

Total Liabilities	<u>1,009,522</u>
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NET ASSETS

Invested in capital assets, net of related debt	766,175
Unrestricted	550,769
Total Net Assets	<u>\$ 1,316,944</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003

OPERATING REVENUES

Water sales	\$ 253,203
Total Operating Revenues	<u>253,203</u>

OPERATING EXPENSES

Professional services	14,103
Salaries and benefits	195,243
Services and supplies	70,006
Rents and leases	25,945
Utilities	25,800
Depreciation	58,532
Total Operating Expenses	<u>389,629</u>

Operating (Loss)	<u>(136,426)</u>
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NONOPERATING REVENUES (EXPENSES)

Investment earnings	13,883
Interest expense	(52,082)
Property taxes	91,509
Special assessments	73,290
State assistance	264
Penalties	7,851
Other	1,455
Total Nonoperating Revenues (Expenses)	<u>136,170</u>

Change in Net Assets	(256)
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Net Assets - beginning	<u>1,317,200</u>
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Net Assets - ending	<u><u>\$ 1,316,944</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Statement of Cash Flows
For the Year Ended June 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 242,787
Payments to suppliers	(135,519)
Payments to employees	(195,243)
Net Cash (Used For) Operating Activities	<u>(87,975)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	101,618
Special assessments	73,290
State assistance	264
Penalties	7,851
Other nonoperating revenues	1,455
Net Cash Provided by Noncapital Financing Activities	<u>184,478</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on bonds	(40,000)
Interest paid on bonds	(52,250)
Net Cash (Used For) Capital and Related Financing Activities	<u>(92,250)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings	16,253
Net Cash Provided By Investing Activities	<u>16,253</u>

Net increase in cash and cash equivalents	20,506
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Cash and Cash Equivalents- beginning of the year	<u>464,721</u>
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Cash and Cash Equivalents - end of the year	<u><u>\$ 485,227</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Statement of Cash Flows
For the Year Ended June 30, 2003**

Reconciliation of operating (loss) to net cash (used for) operating activities:	
Operating (loss)	\$ (136,426)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	58,532
Change in assets and liabilities:	
Increase in receivable, net	(10,416)
Increase in due to other governments	<u>335</u>
Net Cash (Used For) Operating Activities	<u>\$ (87,975)</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70, Improvement Zone W-1, Goat Mountain, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. It is located 10 miles north of Yucca Valley in the Landers area. It provides water services for 630 properties and maintains two wells, two booster stations and reservoir storage of 420,000 gallons.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone W-1 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Measurement focus, basis of accounting, and financial statement presentation

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital assets

Capital assets, which include property, plant and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2003, the accounts receivable were composed for the following:

Accounts receivable	\$ 64,029
Less: Allowance for Uncollectibles	<u>(3,201)</u>
Total Accounts Receivable, net	<u>\$ 60,828</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Construction in progress	109,058	-	-	109,058
Total capital assets, not being depreciated	<u>112,558</u>	<u>-</u>	<u>-</u>	<u>112,558</u>
Capital assets, being depreciated:				
Land improvements	2,627,381	-	-	2,627,381
Vehicles	89,920	-	-	89,920
Total capital assets, being depreciated	<u>2,717,301</u>	<u>-</u>	<u>-</u>	<u>2,717,301</u>
Less accumulated depreciation for:				
Land improvements	(911,324)	(57,986)	-	(969,310)
Vehicles	(88,828)	(546)	-	(89,374)
Total accumulated depreciation	<u>(1,000,152)</u>	<u>(58,532)</u>	<u>-</u>	<u>(1,058,684)</u>
Total capital assets, being depreciated, net	<u>1,717,149</u>	<u>(58,532)</u>	<u>-</u>	<u>1,658,617</u>
Total capital assets, net	<u>\$1,829,707</u>	<u>\$ (58,532)</u>	<u>\$ -</u>	<u>\$ 1,771,175</u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 5: BONDS PAYABLE

County Service Area No. 70, Zone W-1 sold bonds during fiscal years 1978-79 and 1979-80 to provide construction capital. The bonds were issued at 5% interest, and all bonds are scheduled to be paid by December 1, 2019. The following is a schedule of debt service requirements to maturity as of June 30, 2003 for the District's bonds payable.

<u>Year Ending June 30,</u>	<u>Zone W-1</u>
2004	\$ 90,250
2005	93,250
2006	91,000
2007	93,750
2008	91,250
2009 - 2013	465,250
2014 - 2018	462,750
2019	99,750
Subtotal	<u>1,487,250</u>
Less: Interest	<u>(482,250)</u>
Total Principal	<u>\$ 1,005,000</u>

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	<u>\$ 1,045,000</u>	<u>\$ -</u>	<u>\$ (40,000)</u>	<u>\$ 1,005,000</u>	<u>\$ 40,000</u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 6: MOJAVE WATER AGENCY OPERATING LEASE

On March 11, 1991, CSA 70, Zone W-1 entered into a noncancelable operating lease agreement 91-166. Zone W-1 agreed to pay lease payments to Mojave Water Agency as a 4% participant in the Morongo Basin Pipeline. The lease payments are comprised of a fixed portion to cover debt on the water project and a variable portion for Operating and Maintenance costs. On March 7, 1995, Amendment A-1 was added to agreement 91-166. Amendment A-1 reduced the participation rate on Zone W-1 to 1% from 4%. The total lease payment based on the agreement was \$23,145 for the year ended June 30, 2003. The lease payments are reflected as operating expenses in the Statement of Revenues, Expenses and Changes in Net Assets (Exhibit B). The future minimum lease payments for the lease are as follows:

<u>Year Ending June 30,</u>	<u>Zone W-1</u>
2004	\$ 23,171
2005	23,165
2006	23,157
2007	23,139
2008	23,158
2009 - 2013	115,800
2014 - 2018	115,835
2019 - 2022	63,852
Total	<u>\$ 411,277</u>

NOTE 7: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 7: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2003

NOTE 9: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 10: CONTINGENCIES

As of June 30, 2003 , in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 11: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE W-3 - HACIENDA HEIGHTS**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone W-3 - Hacienda Heights
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone W-3 - Hacienda Heights

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone W-3 - Hacienda Heights (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone W-3 - Hacienda Heights, as of June 30, 2003, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zone W-3 - Hacienda Heights has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

MEMBERS

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PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
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County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Statement of Net Assets
June 30, 2003

ASSETS

Current Assets:

Cash and cash equivalents	\$ 33,280
Receivables, net	14,791
Interest receivable	195
Taxes receivable	1,095
Total Current Assets	<u>49,361</u>

Noncurrent Assets:

Capital Assets:

Land	34,551
Improvements to land	339,542
Structures and improvements	254,244
Vehicles	25,740
Accumulated depreciation	(138,914)
Total Noncurrent Assets	<u>515,163</u>

Total Assets	<u>564,524</u>
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LIABILITIES

Current Liabilities:

Due to other governments	207
Accrued interest payable	603
Notes payable	5,447
Total Current Liabilities	<u>6,257</u>

Noncurrent Liabilities:

Notes payable	18,692
Total Noncurrent Liabilities	<u>18,692</u>

Total Liabilities	<u>24,949</u>
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NET ASSETS

Invested in capital assets, net of related debt	491,024
Unrestricted	48,551
Total Net Assets	<u>\$ 539,575</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003**

OPERATING REVENUES

Water sales	\$ 82,327
Total Operating Revenues	<u>82,327</u>

OPERATING EXPENSES

Professional services	5,635
Salaries and benefits	53,543
Services and supplies	26,460
Utilities	15,679
Depreciation	13,117
Total Operating Expenses	<u>114,434</u>

Operating (Loss)	<u>(32,107)</u>
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NONOPERATING REVENUES (EXPENSES)

Investment earnings	798
Interest expense	(1,339)
Property taxes	13,417
Special assessments	6,661
Other taxes	510
State aid	284
Penalties	3,502
Other	300
Total Nonoperating Revenues (Expenses)	<u>24,133</u>

Change in Net Assets	(7,974)
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Net Assets - beginning	<u>547,549</u>
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Net Assets - ending	<u><u>\$ 539,575</u></u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Statement of Cash Flows
For the Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 83,947
Payments to suppliers	(52,123)
Payments to employees	(53,543)
Net Cash (Used For) Operating Activities	<u>(21,719)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	13,290
Special assessments	6,661
State aid	284
Penalties	3,502
Other nonoperating revenues	810
Net Cash Provided by Noncapital Financing Activities	<u>24,547</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on notes	(5,184)
Interest paid on notes	(1,469)
Net Cash (Used For) Capital and Related Financing Activities	<u>(6,653)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings	1,015
Net Cash Provided By Investing Activities	<u>1,015</u>

Net Decrease in Cash and Cash Equivalents (2,810)

Cash and Cash Equivalents - beginning of the year 36,090

Cash and Cash Equivalents - end of the year \$ 33,280

Reconciliation of operating (loss) to net cash (used for) operating activities:

Operating (loss)	\$ (32,107)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	13,117
Change in assets and liabilities:	
Decrease in receivables, net	1,620
Increase in due to other governments	207
Decrease in accounts payable	(4,556)

Net Cash (Used For) Operating Activities \$ (21,719)

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70, Zone W-3 - Hacienda Heights, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. It is located 10 miles southwest of Yucca Valley. It provides water services for 170 properties and maintains one well, two booster stations and two 110,000 gallon reservoirs.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone W-3 - Hacienda Heights of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Measurement focus, basis of accounting, and financial statement presentation

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance at June 30, 2003 is net of an allowance for doubtful accounts of \$149.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003

NOTE 3: RECEIVABLES

At June 30, 2003, the receivables were composed of the following:

	<u>Ambulance</u>
Accounts	\$ 14,940
Less: allowance for uncollectibles	<u>(149)</u>
Net Total Receivables	<u>\$ 14,791</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 34,551	\$ -	\$ -	\$ 34,551
Total capital assets, not being depreciated	<u>34,551</u>	<u>-</u>	<u>-</u>	<u>34,551</u>
Capital assets, being depreciated:				
Improvements to land	339,542	-	-	339,542
Structures and improvements	254,244	-	-	254,244
Vehicles	25,740	-	-	25,740
Total capital assets, being depreciated	<u>619,526</u>	<u>-</u>	<u>-</u>	<u>619,526</u>
Less accumulated depreciation for:				
Improvements to land	(88,051)	(7,467)	-	(95,518)
Structures and improvements	(12,006)	(5,650)	-	(17,656)
Vehicles	(25,740)	-	-	(25,740)
Total accumulated depreciation	<u>(125,797)</u>	<u>(13,117)</u>	<u>-</u>	<u>(138,914)</u>
Total capital assets, being depreciated, net	<u>493,729</u>	<u>(13,117)</u>	<u>-</u>	<u>480,612</u>
Total capital assets, net	<u>\$ 528,280</u>	<u>\$ (13,117)</u>	<u>\$ -</u>	<u>\$ 515,163</u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003

NOTE 5: NOTES PAYABLE

During February 1978, the County assumed the operation of the Hacienda Water Company with the formation of CSA 70 - Zone W-3. The service area assumed two loans from the Farmers Home Administration when the service area assumed control of the Water Company's assets. Details of the loans are as follows:

<u>Date of Note</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Annual Payment</u>
7/14/67	5%	40 years	\$ 6,154
3/1/68	5%	40 years	500
Totals			<u>\$ 6,654</u>

Annual debt service requirements to maturity for notes are as follows:

<u>Year Ending June 30,</u>	<u>Zone W-3 - Hacienda Heights</u>
2004	\$ 6,654
2005	6,654
2006	6,654
2007	<u>7,316</u>
Total payments	27,278
Less: Interest	<u>(3,139)</u>
Total Principal	<u>\$ 24,139</u>
Current Portion	\$ 5,447
Noncurrent Portion	<u>18,692</u>
	<u>\$ 24,139</u>

Change in long-term liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable:					
Farmers Home Administration 1967	\$ 27,459	\$ -	\$ (4,781)	\$ 22,678	\$ 5,020
Farmers Home Administration 1968	<u>1,865</u>	<u>-</u>	<u>(404)</u>	<u>1,461</u>	<u>427</u>
Total	<u>\$ 29,324</u>	<u>\$ -</u>	<u>\$ (5,185)</u>	<u>\$ 24,139</u>	<u>\$ 5,447</u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003

NOTE 6: RETIREMENT PLAN (continued)

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 8: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-3 - Hacienda Heights
Notes to Financial Statements
June 30, 2003

NOTE 8: RISK MANAGEMENT (continued)

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 9: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE W-4 - PIONEER TOWN**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 70
Zone W-4 - Pioneer Town
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone W-4 - Pioneer Town

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone W-4 - Pioneer Town (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone W-4 - Pioneer Town, as of June 30, 2003, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zone W-4 - Pioneer Town has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

MEMBERS

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Statement of Net Assets
June 30, 2003

ASSETS

Current Assets:

Cash	\$ 105,139
Accounts receivable, net	12,388
Interest receivable	511
Taxes receivable	554
Total Current Assets	<u>118,592</u>

Noncurrent Assets:

Capital Assets:

Land	23,290
Improvements to land	868,695
Accumulated depreciation	<u>(307,551)</u>
Total Noncurrent Assets	<u>584,434</u>

Total Assets	<u>703,026</u>
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LIABILITIES

-

NET ASSETS

Invested in capital assets	584,434
Unrestricted	<u>118,592</u>
Total Net Assets	<u>\$ 703,026</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003**

OPERATING REVENUES

Water sales	\$ 68,508
Total Operating Revenues	<u>68,508</u>

OPERATING EXPENSES

Professional services	7,603
Salaries and benefits	40,341
Services and supplies	17,573
Utilities	6,034
Depreciation	19,301
Total Operating Expenses	<u>90,852</u>
Operating (Loss)	<u>(22,344)</u>

NONOPERATING REVENUES

Investment earnings	2,614
Property taxes	604
Special assessments	10,194
Penalties	1,554
Miscellaneous	259
Total Nonoperating Revenues	<u>15,225</u>

Change in Net Assets	(7,119)
Net assets - beginning	<u>710,145</u>
Net assets - ending	<u><u>\$ 703,026</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Statement of Cash Flows
For the Year Ended June 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 70,161
Payments to suppliers	(33,843)
Payments to employees	(40,341)

Net Cash (Used For) Operating Activities	(4,023)
--	---------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	318
Special assessments	10,194
Penalties	1,554
Other	259

Net Cash Provided By Noncapital Financing Activities	12,325
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings	3,056
---------------------	-------

Net Cash Provided By Investing Activities	3,056
---	-------

Net Increase in Cash and Cash Equivalents	11,358
---	--------

Cash and Cash Equivalents - beginning of the year	93,781
---	--------

Cash and Cash Equivalents - end of the year	\$ 105,139
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Reconciliation of operating (loss) to net cash (used for) operating activities:

Operating (loss)	\$ (22,344)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	19,301
Change in assets and liabilities:	
Decrease in accounts receivable	1,653
Decrease in accounts payable	(2,633)

Net Cash (Used For) Operating Activities	\$ (4,023)
--	------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70, Zone W-4, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. The CSA is situated five miles northwest of Yucca Valley. The District provides water service to 126 properties and maintains five wells and reservoir storage of 210,000 gallons.

The CSA is a component unit of the County of San Bernardino and is governed by the action of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone W-4 - Pioneer Town of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Measurement focus, basis of accounting, and financial statement presentation

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance at June 30, 2002 is net of an allowance for doubtful accounts of \$791.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepares and adopts an annual budget, budgetary comparison information is not presented because the CSA does not have any required budgetary comparison information for general fund and each major special revenue fund.

Reclassification

Certain reclassifications and restatements have been made to the current year financial statements to conform to the proper presentation.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Notes to Financial Statements
June 30, 2003**

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2003, the receivables were composed of the following:

	<u>Ambulance</u>
Accounts	\$ 13,179
Less: allowance for uncollectibles	<u>(791)</u>
Net Total Accounts Receivable	<u><u>\$ 12,388</u></u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 23,290	\$ -	\$ -	\$ 23,290
Total capital assets, not being depreciated	<u>23,290</u>	<u>-</u>	<u>-</u>	<u>23,290</u>
Capital assets, being depreciated:				
Land improvements	868,695	-	-	868,695
Total capital assets, being depreciated	<u>868,695</u>	<u>-</u>	<u>-</u>	<u>868,695</u>
Less accumulated depreciation for:				
Land improvements	(288,250)	(19,301)	-	(307,551)
Total accumulated depreciation	<u>(288,250)</u>	<u>(19,301)</u>	<u>-</u>	<u>(307,551)</u>
Total capital assets, being depreciated	<u>580,445</u>	<u>(19,301)</u>	<u>-</u>	<u>561,144</u>
Total capital assets, net	<u><u>\$ 603,735</u></u>	<u><u>\$ (19,301)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 584,434</u></u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Notes to Financial Statements
June 30, 2003**

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Notes to Financial Statements
June 30, 2003

NOTE 5: RETIREMENT PLAN (continued)

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-4 - Pioneer Town
Notes to Financial Statements
June 30, 2003**

NOTE 7: RISK MANAGEMENT (continued)

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 73
ARROWBEAR LAKE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 73
Arrowbear Lake
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 73 - Arrowbear Lake

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 73 - Arrowbear Lake (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 73 - Arrowbear Lake, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

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CERTIFIED PUBLIC ACCOUNTANTS
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The County of San Bernardino Special District County Service Area No. 73 - Arrowbear Lake has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 188
Taxes receivable	<u>381</u>
Total Assets	<u>569</u>

LIABILITIES

Accounts payable	<u>2,336</u>
------------------	--------------

NET ASSETS

Unrestricted	<u>(1,767)</u>
Total Net Assets	<u><u>\$ (1,767)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 523
Services and supplies	4,564
Total Program Expenses	<u>5,087</u>

PROGRAM REVENUES

Net Program Expense	<u>-</u> <u>(5,087)</u>
---------------------	----------------------------

GENERAL REVENUES

Property taxes	2,678
Other taxes	110
State assistance	61
Total General Revenues	<u>2,849</u>

Change in Net Assets	(2,238)
----------------------	---------

Net Assets - beginning	<u>471</u>
-------------------------------	------------

Net Assets - ending	<u><u>\$ (1,767)</u></u>
----------------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Balance Sheet
Governmental Fund
June 30, 2003

	SPECIAL REVENUE FUND <hr/> General (SOP) <hr/>
ASSETS	
Cash and cash equivalents	\$ 188
Taxes receivable	157
	<hr/>
Total Assets	\$ 345
	<hr/>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 2,336
	<hr/>
Total Liabilities	2,336
	<hr/>
Fund Balances:	
Unreserved (deficit)	(1,991)
	<hr/>
Total Fund Balances	(1,991)
	<hr/>
Total Liabilities and Fund Balances	\$ 345
	<hr/>
Total fund balances - governmental fund	\$ (1,991)
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.	
Property tax revenue	224
	<hr/>
Net assets of governmental fund	\$ (1,767)
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND
	General (SOP)
REVENUES	
Property taxes	\$ 2,677
Other taxes	110
State assistance	61
Total Revenue	<u>2,848</u>
EXPENDITURES	
Salaries and benefits	523
Services and supplies	<u>4,564</u>
Total Expenditures	<u>5,087</u>
Net Change in Fund Balances	(2,239)
Fund Balances - beginning	<u>248</u>
Fund Balances - ending	<u><u>\$ (1,991)</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Fund	\$	(2,239)
---	----	---------

Amounts reported for governmental activities in the statement of activities
are different because:

Some revenues will not be collected for several months after year-end,
they are not considered "available" revenue in the governmental fund.

Property tax revenue - current year		224
-------------------------------------	--	-----

Property tax revenue - prior year		(223)
-----------------------------------	--	-------

Change in net assets of governmental activities	\$	(2,238)
---	----	---------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 73 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 21 street lights.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 73 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Deficit Fund Equity

The General fund has a deficit fund balance of \$1,991 as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 3: RETIREMENT PLAN (continued)

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 4: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 5: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Notes to Financial Statements
June 30, 2003**

NOTE 5: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 6: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 73 - Arrowbear Lake
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SOP)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 2,721	\$ 2,721	\$ 2,677	\$ (44)
Other taxes	-	-	110	110
State assistance	-	-	61	61
Other	-	3,100	-	(3,100)
Total Revenues	2,721	5,821	2,848	(2,973)
EXPENDITURES				
Salaries and benefits	523	523	523	-
Services and supplies	2,198	5,298	4,564	734
Reserves and contingencies	248	248	-	248
Total Expenditures	2,969	6,069	5,087	982
Net Change in Fund Balances	\$ (248)	\$ (248)	(2,239)	\$ (1,991)
Fund Balances - beginning			248	
Fund Balances - ending			\$ (1,991)	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 77
MARIANA RANCHOS**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 77
Mariana Ranchos
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ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 77 - Mariana Ranchos

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 77 - Mariana Ranchos (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 77 - Mariana Ranchos, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

The County of San Bernardino Special District County Service Area No. 77 - Mariana Ranchos has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Statement of Net Assets
June 30, 2003**

ASSETS

Cash and cash equivalents	\$ 9,212
Interest receivable	44
Taxes receivable	<u>316</u>
Total Assets	<u>9,572</u>

LIABILITIES

Due to other governments	<u>4,711</u>
--------------------------	--------------

NET ASSETS

Unrestricted	<u>4,861</u>
Total Net Assets	<u><u>\$ 4,861</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 1,445
Services and supplies	7,644
Total Program Expenses	<u>9,089</u>

PROGRAM REVENUES

Net Program Expense	<u>-</u>
	<u>(9,089)</u>

GENERAL REVENUES

Property taxes	2,356
Other taxes	92
State assistance	51
Investment earnings	241
Total General Revenues	<u>2,740</u>

Change in Net Assets	(6,349)
----------------------	---------

Net Assets - beginning	<u>11,210</u>
-------------------------------	---------------

Net Assets - ending	<u><u>\$ 4,861</u></u>
----------------------------	------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Balance Sheet
Governmental Fund
June 30, 2003

	SPECIAL REVENUE FUND
	General (SOR)
ASSETS	
Cash and cash equivalents	\$ 9,212
Interest receivable	44
Taxes receivable	131
Total Assets	<u>\$ 9,387</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to other governments	<u>\$ 4,711</u>
Total Liabilities	<u>4,711</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>4,676</u>
Total Fund Balances	<u>4,676</u>
Total Liabilities and Fund Balances	<u>\$ 9,387</u>
Total fund balances - governmental fund	<u>\$ 4,676</u>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.	
Property tax revenue	<u>185</u>
Net assets of governmental fund	<u>\$ 4,861</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND <hr/> General (SOR) <hr/>
REVENUES	
Property taxes	\$ 2,357
Other taxes	92
State assistance	51
Investment earnings	241
	<hr/>
Total Revenues	2,741
	<hr/>
EXPENDITURES	
Salaries and benefits	1,445
Services and supplies	7,644
	<hr/>
Total Expenditures	9,089
	<hr/>
Net Change in Fund Balances	(6,348)
	<hr/>
Fund Balances - beginning	11,024
	<hr/>
Fund Balances - ending	\$ 4,676
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Fund	\$	(6,348)
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Amounts reported for governmental activities in the statement of activities are different because:

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		185
Property tax revenue - prior year		(186)
		(186)

Change in net assets of governmental activities	\$	(6,349)
---	----	---------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 77 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 6 miles of paved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 77 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property Taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Notes to Financial Statements
June 30, 2003**

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Notes to Financial Statements
June 30, 2003

NOTE 3: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 4: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 5: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Notes to Financial Statements
June 30, 2003**

NOTE 5: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 6: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 77 - Mariana Ranchos
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SOR)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 2,412	\$ 2,412	\$ 2,357	\$ (55)
Other taxes	-	-	92	92
State assistance	-	-	51	51
Investment earnings	-	-	241	241
Total Revenues	2,412	2,412	2,741	329
EXPENDITURES				
Salaries and benefits	1,445	1,445	1,445	-
Services and supplies	9,471	9,471	7,644	1,827
Reserves and contingencies	2,520	2,520	-	2,520
Total Expenditures	13,436	13,436	9,089	4,347
Net Change in Fund Balances	\$ (11,024)	\$ (11,024)	(6,348)	\$ 4,676
Fund Balances - beginning			11,024	
Fund Balances - ending			\$ 4,676	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 82
SEARLES VALLEY**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 82
Searles Valley
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 82 - Searles Valley

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 82 - Searles Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 82 - Searles Valley, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on pages 29 - 30 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

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CALIFORNIA SOCIETY OF
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The County of San Bernardino Special District County Service Area No. 82 - Searles Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

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County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,815	\$ 1,717,489	\$ 1,727,304
Accounts receivable, net	-	47,605	47,605
Interest receivable	90	9,812	9,902
Taxes receivable	11,268	2,458	13,726
Due from other governments	7	-	7
Capital assets, net of depreciation	70,574	746,872	817,446
Total Assets	91,754	2,524,236	2,615,990
LIABILITIES			
Accounts payable	-	6,657	6,657
Salaries and benefits payable	1,916	-	1,916
Due to other governments	283	151	434
Total Liabilities	2,199	6,808	9,007
NET ASSETS			
Invested in capital assets	70,574	746,872	817,446
Unrestricted	18,981	1,770,556	1,789,537
Total Net Assets	\$ 89,555	\$ 2,517,428	\$ 2,606,983

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Statement of Activities
For the Year Ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Professional services	\$ -	\$ 45,126	\$ 45,126
Salaries and benefits	55,318	133,575	188,893
Services and supplies	107,313	114,793	222,106
Rents and leases	-	1,326	1,326
Intergovernmental	5,375	-	5,375
Depreciation	10,696	32,206	42,902
Total Expenses	<u>178,702</u>	<u>327,026</u>	<u>505,728</u>
PROGRAM REVENUES			
Charges for services	-	157,381	157,381
Net Program Expense	<u>(178,702)</u>	<u>(169,645)</u>	<u>(348,347)</u>
GENERAL REVENUES			
Property taxes	87,434	46,991	134,425
Special assessments	-	5,351	5,351
Other taxes	4,349	1,885	6,234
State assistance	1,897	947	2,844
Investment earnings	538	54,206	54,744
Penalties	-	1,866	1,866
Other	-	1,780	1,780
TRANSFERS - INTERNAL ACTIVITIES	<u>69,167</u>	<u>(69,167)</u>	<u>-</u>
Total General Revenues and Transfers	<u>163,385</u>	<u>43,859</u>	<u>207,244</u>
Change in Net Assets	(15,317)	(125,786)	(141,103)
Net Assets - beginning	<u>104,872</u>	<u>2,643,214</u>	<u>2,748,086</u>
Net Assets - ending	<u>\$ 89,555</u>	<u>\$ 2,517,428</u>	<u>\$ 2,606,983</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Balance Sheet
Governmental Funds
June 30, 2003**

	<u>SPECIAL REVENUE FUNDS</u>	
	<u>Argus Fire General (SOY)</u>	<u>Park and Street Lighting (SOZ)</u>
ASSETS		
Cash and cash equivalents	\$ 4,880	\$ 3,091
Interest receivable	51	28
Taxes receivable	4,922	-
Due to other governments	-	7
Total Assets	<u>\$ 9,853</u>	<u>\$ 3,126</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and benefits payable	\$ 1,916	\$ -
Due to other funds	164	119
Total Liabilities	<u>2,080</u>	<u>119</u>
Fund Balances:		
Unreserved:		
Undesignated	<u>7,773</u>	<u>3,007</u>
Total Fund Balances	<u>7,773</u>	<u>3,007</u>
Total Liabilities and Fund Balances	<u>\$ 9,853</u>	<u>\$ 3,126</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUND	Total Governmental Funds
Rescue Tool (CFJ)	
\$ 1,844	\$ 9,815
11	90
-	4,922
-	7
<u>\$ 1,855</u>	<u>\$ 14,834</u>
\$ -	\$ 1,916
-	283
-	2,199
<u>1,855</u>	<u>12,635</u>
<u>1,855</u>	12,635
<u>\$ 1,855</u>	
	70,574
	<u>6,346</u>
	<u>\$ 89,555</u>

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUNDS	
	Argus Fire General (SOY)	Park and Street Lighting (SOZ)
REVENUES		
Property taxes	\$ 88,046	\$ -
Other taxes	4,349	-
State assistance	1,897	-
Investment earnings	125	356
Total Revenues	94,417	356
EXPENDITURES		
Salaries and benefits	51,967	3,351
Services and supplies	85,893	21,420
Total Expenditures	137,860	24,771
Excess of Revenues Over (Under) Expenditures	(43,443)	(24,415)
OTHER FINANCING SOURCES (USES)		
Transfer in	44,267	24,900
Transfer out	(5,375)	-
Total Other Financing Sources (Uses)	38,892	24,900
Net Change in Fund Balances	(4,551)	485
Fund Balances - beginning	12,324	2,522
Fund Balances - ending	\$ 7,773	\$ 3,007

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUND	Total Governmental Funds
Rescue Tool (CFJ)	
\$ -	\$ 88,046
-	4,349
-	1,897
57	538
57	94,830
-	55,318
-	107,313
-	162,631
57	(67,801)
-	69,167
-	(5,375)
-	63,792
57	(4,009)
1,798	16,644
\$ 1,855	\$ 12,635

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County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	(4,009)
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		(10,696)
--	--	----------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		6,346
Property tax revenue - prior year		(6,958)

Change in net assets of governmental activities	\$	(15,317)
---	----	----------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Statement of Net Assets
Proprietary Funds
June 30, 2003

	ENTERPRISE FUNDS	
	Administrative	Sewer and Street Lighting - Trona
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,419,118	\$ 226,815
Accounts receivables, net	33,415	-
Interest receivable	8,088	1,283
Taxes receivable	2,458	-
Advance to other funds	-	4,000
Total Current Assets	1,463,079	232,098
Noncurrent Assets:		
Capital assets:		
Land	39,809	3,000
Improvement to land	1,147,993	115,591
Equipment	-	20,513
Vehicles	-	-
Construction in progress	-	10,669
Accumulated depreciation	(665,213)	(98,224)
Total Noncurrent Assets	522,589	51,549
Total Assets	1,985,668	283,647
LIABILITIES		
Current Liabilities:		
Accounts payable	6,657	-
Due to other governments	-	-
Advance from other funds	4,000	-
Total Current Liabilities	10,657	-
Total Liabilities	10,657	-
NET ASSETS		
Invested in capital assets	522,589	51,549
Unrestricted	1,452,422	232,098
Total Net Assets	\$ 1,975,011	\$ 283,647

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUNDS		Total Enterprise Funds
Sewer - Pioneer	Ambulance	
\$ -	\$ 71,556	\$ 1,717,489
-	14,190	47,605
-	441	9,812
-	-	2,458
-	-	4,000
-	86,187	1,781,364
-	-	42,809
457,316	-	1,720,900
-	-	20,513
-	63,604	63,604
-	-	10,669
(284,582)	(63,604)	(1,111,623)
172,734	-	746,872
172,734	86,187	2,528,236
-	-	6,657
-	151	151
-	-	4,000
-	151	10,808
-	- 151	10,808
172,734	-	746,872
-	86,036	1,770,556
\$ 172,734	\$ 86,036	\$ 2,517,428

County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2003

	<u>ENTERPRISE FUNDS</u>	
	<u>Administrative</u>	<u>Sewer and Street Lighting - Trona</u>
OPERATING REVENUES		
Sanitation services	\$ 93,367	\$ -
Ambulance fees	-	-
Total Operating Revenues	<u>93,367</u>	<u>-</u>
OPERATING EXPENSES		
Professional services	37,814	-
Salaries and benefits	131,999	-
Services and supplies	66,943	5,090
Rents and leases	605	-
Depreciation	24,956	2,104
Total Operating Expenses	<u>262,317</u>	<u>7,194</u>
Operating Income (Loss)	<u>(168,950)</u>	<u>(7,194)</u>
NONOPERATING REVENUES		
Investment earnings	43,876	7,761
Property taxes	46,991	-
Special assessments	5,351	-
Other taxes	1,885	-
State assistance	947	-
Penalties	1,866	-
Other	1,676	-
Total Nonoperating Revenues	<u>102,592</u>	<u>7,761</u>
Income (Loss) Before Transfers	<u>(66,358)</u>	<u>567</u>
TRANSFERS		
Transfers in	190,167	-
Transfers out	(215,067)	-
Total Transfers	<u>(24,900)</u>	<u>-</u>
Change in Net Assets	<u>(91,258)</u>	<u>567</u>
Net Assets - beginning	<u>2,066,269</u>	<u>283,080</u>
Net Assets - ending	<u>\$ 1,975,011</u>	<u>\$ 283,647</u>

The accompanying notes are an integral part of these financial statements

ENTERPRISE FUNDS		
Sewer - Pioneer	Ambulance	Total Enterprise Funds
\$ -	\$ -	\$ 93,367
-	64,014	64,014
-	64,014	157,381
-	7,312	45,126
-	1,576	133,575
-	42,760	114,793
-	721	1,326
5,146	-	32,206
5,146	52,369	327,026
(5,146)	11,645	(169,645)
-	2,569	54,206
-	-	46,991
-	-	5,351
-	-	1,885
-	-	947
-	-	1,866
-	104	1,780
-	2,673	113,026
(5,146)	14,318	(56,619)
-	-	190,167
-	(44,267)	(259,334)
-	(44,267)	(69,167)
(5,146)	(29,949)	(125,786)
177,880	115,985	2,643,214
\$ 172,734	\$ 86,036	\$ 2,517,428

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003**

	ENTERPRISE FUNDS	
	Administrative	Sewer and Street Lighting - Trona
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 92,061	\$ -
Payments to suppliers	(98,705)	(5,090)
Payments to employees	(131,999)	-
Net Cash (Used For) Operating Activities	(138,643)	(5,090)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	47,395	-
Special assessments	5,351	-
State assistance	947	-
Penalties	1,866	-
Other nonoperating revenue	3,561	-
Transfers from (to) other funds	(24,900)	-
Net Cash Provided By (Used For) Noncapital Financing Activities	34,220	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	50,975	8,784
Net Cash Provided By Investing Activities	50,975	8,784
Net Increase (Decrease) In Cash and Cash Equivalents	(53,448)	3,694
Cash and Cash Equivalents - beginning of the year	1,472,566	223,121
Cash and Cash Equivalents - end of the year	\$ 1,419,118	\$ 226,815

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUNDS		Total Enterprise Funds
Sewer - Pioneer	Ambulance	
\$ -	\$ 51,568	\$ 143,629
-	(51,509)	(155,304)
-	(1,835)	(133,834)
-	(1,776)	(145,509)
-	-	47,395
-	-	5,351
-	-	947
-	-	1,866
-	104	3,665
-	(44,267)	(69,167)
-	(44,163)	(9,943)
-	3,282	63,041
-	3,282	63,041
-	(42,657)	(92,411)
-	114,213	1,809,900
\$ -	\$ 71,556	\$ 1,717,489

County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003

	ENTERPRISE FUNDS	
	Administrative	Sewer and Street Lighting - Trona
Reconciliation of operating income (loss) to net cash (used for) operating activities:		
Operating income (loss)	\$ (168,950)	\$ (7,194)
Adjustments to reconcile operating income (loss) to net cash (used for) operating activities:		
Depreciation expense	24,956	2,104
Change in assets and liabilities:		
(Increase) in accounts receivable, net	(10,558)	-
Decrease in other receivables	9,252	-
Increase in accounts payable	6,657	-
(Decrease) in salaries and benefits payable	-	-
(Decrease) in due to other funds	-	-
Net Cash (Used For) Operating Activities	<u>\$ (138,643)</u>	<u>\$ (5,090)</u>

The accompanying notes are an integral part of these financial statements.

ENTERPRISE FUNDS		
Sewer - Pioneer	Ambulance	Total Enterprise Funds
\$ (5,146)	\$ 11,645	\$ (169,645)
5,146	-	32,206
-	(12,446)	(23,004)
-	-	9,252
-	-	6,657
-	(259)	(259)
-	(716)	(716)
<u>\$ -</u>	<u>\$ (1,776)</u>	<u>\$ (145,509)</u>

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**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 82 – Searles Valley was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. The CSA 82 - Zone SV-1 Searles Valley is an administrative entity for 3 improvement zones providing ambulance, sewer, street lighting, fire and park services to the community of Searles Valley. The CSA 82 - Zone SV-3 Trona and Zone SV-4 Pioneer were combined by Resolution No. 2000-132 by the Board of Supervisors on June 6, 2000 to provide sewage collection and streetlight services to 797 Equivalent Dwelling Units (EDUs) in the communities of Trona and Pioneer Point. The CSA 82 - Trona Ambulance provides ambulance transport to the Searles Valley communities of Pioneer Point, Trona, Argus, and West End areas under the administration of the San Bernardino County Fire Department.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 82 - Searles Valley of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any fiduciary fund types. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue funds* labeled "Argus Fire General" accounts for activities of the fire protection service to the community of Searles Valley.

The *special revenue funds* labeled "Park and Street Lighting" accounts for activities of the park and street lighting services in Searles.

The government reports the following major proprietary funds:

The *enterprise funds* labeled "Administrative" accounts for administration costs for the 3 improvement zones providing ambulance, sewer, street lighting, fire and park services.

The *enterprise funds* labeled "Sewer and Street Lighting - Trona" accounts for activities of the sewer and street lighting services in the community of Trona.

The *enterprise funds* labeled "Sewer - Pioneer" accounts for activities of the sewer service in the community of Pioneer Point.

The *enterprise funds* labeled "Ambulance" accounts for activities of the ambulance transport service to the Searles Valley communities of Pioneer Point, Trona, Argus, and West End areas under the administration of the County Fire Department.

County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balances of the Administrative and Ambulance Enterprise Funds at June 30, 2003 are net of an allowance for doubtful accounts of \$4,998 and \$12,351, respectively.

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding, if any, at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2003, the accounts receivable was composed of the following:

	Administrative	Sewer and Street Lighting - Trona	Sewer - Pioneer	Ambulance	Totals
Business-type activities:					
Accounts	\$ 38,413	\$ -	\$ -	\$ 26,541	\$ 64,954
Less: allowance for uncollectibles	(4,998)	-	-	(12,351)	(17,349)
Net Total Accounts Receivable	<u>\$ 33,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,190</u>	<u>\$ 47,605</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,050	\$ -	\$ -	\$ 1,050
Total capital assets, not being depreciated	<u>1,050</u>	<u>-</u>	<u>-</u>	<u>1,050</u>
Capital assets, being depreciated:				
Improvements to land	156,440	-	-	156,440
Structures and improvements to structures	100,209	-	-	100,209
Vehicles	183,037	-	(44,076)	138,961
Equipment	10,043	-	-	10,043
Total capital assets, being depreciated	<u>449,729</u>	<u>-</u>	<u>(44,076)</u>	<u>405,653</u>
Less accumulated depreciation for:				
Improvements to land	(139,941)	(3,514)	-	(143,455)
Structures and improvements to structures	(45,682)	(2,227)	-	(47,909)
Vehicles	(178,752)	(4,285)	44,076	(138,961)
Equipment	(5,134)	(670)	-	(5,804)
Total accumulated depreciation	<u>(369,509)</u>	<u>(10,696)</u>	<u>44,076</u>	<u>(336,129)</u>
Total capital assets, being depreciated	<u>80,220</u>	<u>(10,696)</u>	<u>-</u>	<u>69,524</u>
Governmental activities capital assets, net	<u>\$ 81,270</u>	<u>\$ (10,696)</u>	<u>\$ -</u>	<u>\$ 70,574</u>

County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003

NOTE 4: CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 42,809	\$ -	\$ -	\$ 42,809
Construction in progress	10,669	-	-	10,669
Total capital assets, not being depreciated	<u>53,478</u>	<u>-</u>	<u>-</u>	<u>53,478</u>
Capital assets, being depreciated:				
Improvements to land	1,720,900	-	-	1,720,900
Vehicles	63,604	-	-	63,604
Equipment	20,513	-	-	20,513
Total capital assets, being depreciated	<u>1,805,017</u>	<u>-</u>	<u>-</u>	<u>1,805,017</u>
Less accumulated depreciation for:				
Improvements to land	(995,300)	(32,206)	-	(1,027,506)
Vehicles	(63,604)	-	-	(63,604)
Equipment	(20,513)	-	-	(20,513)
Total accumulated depreciation	<u>(1,079,417)</u>	<u>(32,206)</u>	<u>-</u>	<u>(1,111,623)</u>
Total capital assets, being depreciated	<u>725,600</u>	<u>(32,206)</u>	<u>-</u>	<u>693,394</u>
Business-type activities capital assets, net	<u>\$ 779,078</u>	<u>\$ (32,206)</u>	<u>\$ -</u>	<u>\$ 746,872</u>

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2003 are as follows:

<u>Fund</u>	<u>Advance to Other Funds</u>	<u>Advance from Other Funds</u>
Sewer and Street Lighting - Trona	\$ 4,000	\$ -
Administrative	-	4,000
Total	<u>\$ 4,000</u>	<u>\$ 4,000</u>

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 6: RETIREMENT PLAN (continued)

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 8: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$2,277 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 8: RISK MANAGEMENT (continued)

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 9: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

<u>Transfers Out:</u>	<u>Amount</u>
Business-type funds:	
Administrative	\$ 24,900
Ambulance	44,267
Total Transfers Out	<u>\$ 69,167</u>
 <u>Transfers In:</u>	
Governmental funds:	
Argus Fire - General	\$ 44,267
Park and Street Lighting	24,900
Total Transfers In	<u>\$ 69,167</u>

**County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Notes to Financial Statements
June 30, 2003**

NOTE 10: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 11: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 82 - Searles Valley
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

	Special Revenue Funds			
	Argus Fire General (SOY)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 95,361	\$ 95,361	\$ 88,046	\$ (7,315)
Other taxes	-	-	4,349	4,349
State assistance	-	-	1,897	1,897
Investment earnings	3,000	3,000	125	(2,875)
Total Revenues	98,361	98,361	94,417	(3,944)
EXPENDITURES				
Salaries and benefits	63,488	63,488	51,967	11,521
Services and supplies	85,938	85,938	85,893	45
Reserves and contingencies	-	-	-	-
Total Expenditures	149,426	149,426	137,860	11,566
Excess of Revenues Over (Under) Expenditures	(51,065)	(51,065)	(43,443)	7,622
OTHER FINANCING SOURCES (USES)				
Transfers in	44,267	44,267	44,267	-
Transfers out	(5,375)	(5,375)	(5,375)	-
Total Other Financing Sources (Uses)	38,892	38,892	38,892	-
Net Change in Fund Balances	\$ (12,173)	\$ (12,173)	(4,551)	\$ 7,622
Fund Balances - beginning			12,324	
Fund Balances - ending			\$ 7,773	

Special Revenue Funds			
Park and Street Lighting (SOZ)			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	356	356
-	-	356	356
3,480	3,480	3,351	129
21,420	21,420	21,420	-
2,522	2,522	-	2,522
27,422	27,422	24,771	2,651
(27,422)	(27,422)	(24,415)	3,007
24,900	24,900	24,900	-
-	-	-	-
24,900	24,900	24,900	-
\$ (2,522)	\$ (2,522)	485	\$ 3,007
		2,522	
		\$ 3,007	



**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. SL-1
STREET LIGHTING**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. SL-1
Street Lighting
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. SL-1 - Street Lighting

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. SL-1 - Street Lighting (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. SL-1 - Street Lighting, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. SL-1 - Street Lighting has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 298,160
Taxes receivable	<u>29,319</u>
Total Assets	<u>327,479</u>

LIABILITIES

Current Liabilities:	
Accounts payable	139,590
Due to other governments	<u>5,022</u>
Total Current Liabilities	<u>144,612</u>
Noncurrent Liabilities:	
Loan payable	<u>6,581</u>
Total Noncurrent Liabilities	<u>6,581</u>
Total Liabilities	<u>151,193</u>

NET ASSETS

Unrestricted	<u>176,286</u>
Total Net Assets	<u><u>\$ 176,286</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 87,374
Services and supplies	491,361
Total Program Expenses	<u>578,735</u>

PROGRAM REVENUES

Charges for services	260,902
Net Program Expense	<u>(317,833)</u>

GENERAL REVENUES

Property taxes	439,713
Other taxes	18,861
State assistance	10,595
Total General Revenues	<u>469,169</u>

Change in Net Assets	151,336
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Net Assets - beginning	<u>24,950</u>
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Net Assets - ending	<u><u>\$ 176,286</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Balance Sheet
Governmental Fund
June 30, 2003**

	SPECIAL REVENUE FUND
	General (SQV)
ASSETS	
Cash and cash equivalents	\$ 298,160
Taxes receivable	29,319
Total Assets	<u>\$ 327,479</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 139,590
Due to other governments	5,022
Total Liabilities	<u>144,612</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>182,867</u>
Total Fund Balances	<u>182,867</u>
Total Liabilities and Fund Balances	<u>\$ 327,479</u>
Total fund balances - governmental fund	\$ 182,867
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.	
Loan payable	<u>(6,581)</u>
Net assets of governmental fund	<u>\$ 176,286</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND
	General (SQV)
REVENUES	
Property taxes	\$ 478,661
Other taxes	18,861
State assistance	10,595
Other	260,902
Total Revenues	<u>769,019</u>
EXPENDITURES	
Salaries and benefits	87,374
Services and supplies	491,638
Total Expenditures	<u>579,012</u>
Net Change in Fund Balances	190,007
Fund Balances - beginning	<u>(7,140)</u>
Fund Balances - ending	<u><u>\$ 182,867</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Fund	\$	190,007
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Amounts reported for governmental activities in the statement of activities
are different because:

Some revenues will not be collected for several months after year-end,
they are not considered "available" revenue in the governmental fund.

Property tax revenue - prior year		(38,948)
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Expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as
expenditures in governmental fund.

Decrease in interest payable		277
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Change in net assets of governmental activities	\$	151,336
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. SL-1 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 2, 1946 under Section 4700 of the State Health & Safety Code to maintain 3993 streetlights, in communities throughout the County.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. SL-1 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: LOAN PAYABLE

The CSA received loan proceeds from the County's Revolving Fund established under Government Code Section 25210.9c. All loans to date have five year terms as established by the Board of Supervisors. The loan balance reported in the *Statement of Net Assets* at June 30, 2003, is \$6,581 and due in 2005.

Future debt service payments for the County's revolving loan is not disclosed because there are no fixed payment debts.

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003

NOTE 4: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003**

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Notes to Financial Statements
June 30, 2003**

NOTE 6: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. SL-1 - Street Lighting
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SQV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 467,724	\$ 467,724	\$ 478,661	\$ 10,937
Other taxes	-	-	18,861	18,861
State assistance	-	-	10,595	10,595
Other	-	246,939	260,902	13,963
Total Revenues	467,724	714,663	769,019	54,356
EXPENDITURES				
Salaries and benefits	87,374	87,374	87,374	-
Services and supplies	410,162	657,101	491,638	165,463
Reserves and contingencies	30,846	30,846	-	30,846
Total Expenditures	528,382	775,321	579,012	196,309
Net Change in Fund Balances	\$ (60,658)	\$ (60,658)	190,007	\$ 250,665
Fund Balances - beginning			(7,140)	
Fund Balances - ending			\$ 182,867	